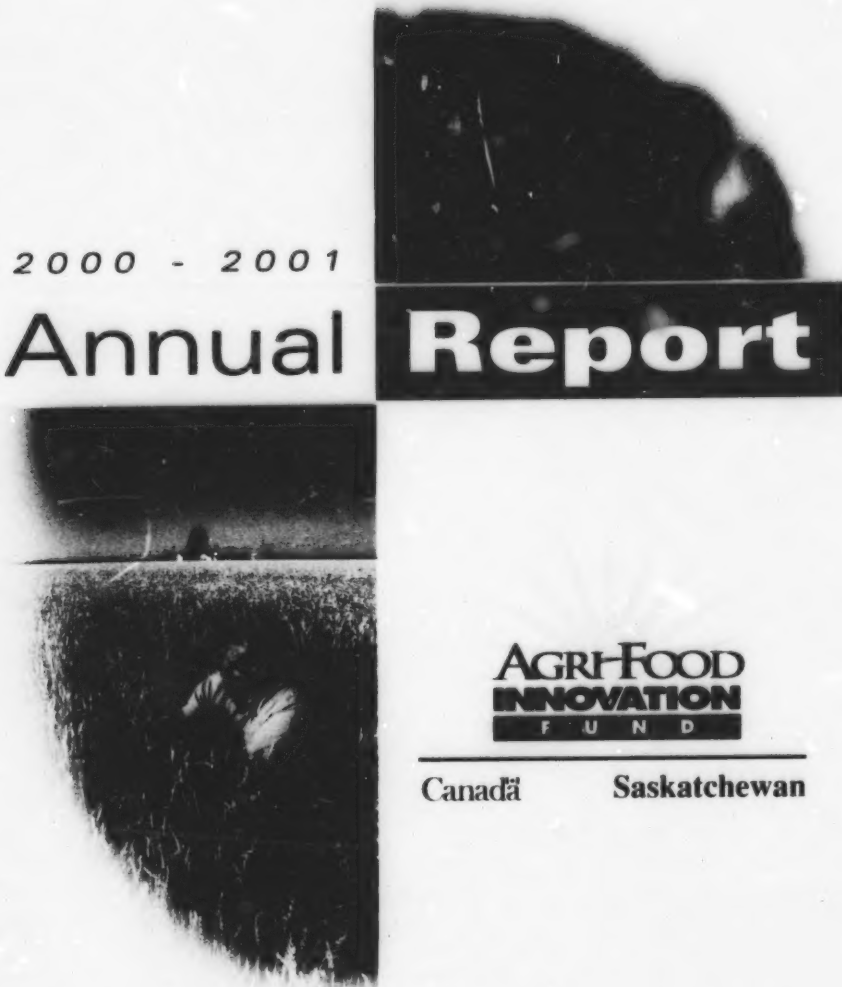




2000 - 2001

Annual Report

AGRI-FOOD
INNOVATION
FUND

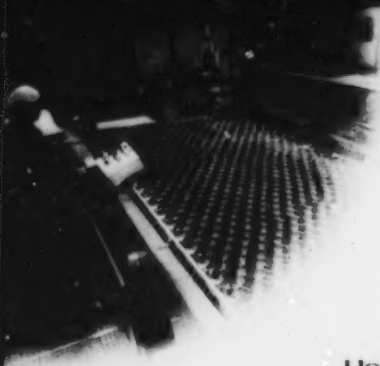
Canada

Saskatchewan

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Letter of Transmittal

Her Honour the Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan
Government House
Regina, Saskatchewan

August 31, 2001

Your Honour:

I have the honour to submit herewith the Annual Report of the
Agri-Food Innovation Fund for the 12 months ending March 31,
2001.

I have the honor to be, Madam, your obedient servant.

Clay Serby,
Minister,
Saskatchewan Agriculture and Food

Letter of Transmittal

Honourable Lyle Vanciel
Minister of Agriculture and Agri-Food Canada
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario
K1A 0C5

Honourable Clay Serby
Minister of Saskatchewan Agriculture and Food
Room 307,
Legislative Building
Regina, Saskatchewan
S4S 0B3

Dear Sirs:

We are pleased to present herewith the Annual Report of the Agri-Food Innovation Fund for the 12 months ending March 31, 2001.

Respectfully submitted:

Bob Wettlaufer,
Federal Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

Susie Miller,
Provincial Co-Chair,
Board of Directors,
Agri-Food Innovation Fund.

Minister's Message



To have a meaningful and lasting impact on Saskatchewan's agriculture and agri-food sector – that was the goal of the Canada-Saskatchewan Agri-Food Innovation Fund (AFIF) when it was launched in 1995.

Nearing the end of its sixth year, AFIF has made its mark. Through projects large and small, more than 200 in all, AFIF has supported the efforts of researchers, producers and entrepreneurs to pursue new and emerging primary production, sustainable agriculture and value-added opportunities.

This fund does more than simply respond to change. By strategically investing in the emerging primary and value-added agri-food sectors, we are actively working to shape change to facilitate the transition to a more market-driven economy. The result is a highly competitive agriculture and agri-food sector well-positioned to vie for global markets, while maintaining its position as a world leader in food safety, innovation and environmental protection.

Each of the projects you will read about in this report represents an investment – an investment in Saskatchewan's innovative farmers, in our dynamic rural communities, in ourselves, and in our future. It's an investment that will pay dividends for years to come.

Honourable Lyle Vanclief
Minister
Agriculture and Agri-Food Canada

Minister's Message

The Canada-Saskatchewan Agri-Food Innovation Fund (AFIF) expresses the spirit of Saskatchewan – a spirit of innovation, ingenuity, and perseverance that sustains and leads our dynamic agriculture and food industry.

Now in its fifth year, the fund is generating positive, long-term, economic benefits for the provincial economy. More than half of the AFIF-funded projects are complete. Two of the fund's investments reached major goals during the last year:



- An investment of more than half a million dollars assisted GenServe Laboratories' opening at Innovation Place in Saskatoon earlier this year. GenServe provides support services to agriculture and biotechnology companies involved in plant-related research and development; and
- POS Pilot Plant Corporation – a \$1.3 million investment from AFIF-funded a facilities upgrade that will allow Saskatchewan food and pharmaceutical companies access to leading edge processing equipment and research facilities.

The Saskatchewan spirit of innovation can be found in everything we do from biotechnology and specialty livestock to herbs and pharmaceuticals. The investments AFIF has made into infrastructure and research supports the development of emerging agriculture and food opportunities. These investments will help position the province's agriculture and food industry for the future, ensuring Saskatchewan takes a leading role in a growing world marketplace.

Honourable Clay Serby
Minister
Saskatchewan Agriculture and Food

Board of Directors Report

To Members of the Legislative Assembly of Saskatchewan

The Board of Directors of the Agri-Food Innovation Fund of Saskatchewan is responsible for the integrity of the accompanying financial statements and all other information in this 2000-2001 Annual Report. It is the responsibility of management to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in Canada.

The integrity of the financial records from which these financial statements are prepared is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are appropriately recorded in order to permit preparation of financial statements; and, assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The financial statements have been audited by the Provincial Auditor of Saskatchewan. The report to the Members of the Legislative Assembly, stating the scope of the examination and opinions on the financial statements appears on the following pages.

Bob Wettlaufer,
Federal Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

Susie Miller,
Provincial Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

Board of Directors

Mr. Bob Wettlaufer, Co-Chair (Federal)
Director-General,
Prairie Farm Rehabilitation Administration, Regina

Ms. Susie Miller, Co-Chair (Provincial)
Assistant Deputy Minister,
Saskatchewan Agriculture and Food, Regina

Ms. Joan Chase	Meota
Dr. Louise Greenberg	Regina
Mr. Louis Hradecki	Meath Park
Ms. Janet Ledingham	Weyburn
Dr. George Lee	Saskatoon
Mr. Doug Maley	Saskatoon
Ms. Linda Pipke	Saskatoon
Dr. Gordon Rowland	Saskatoon
Mr. Don Russell	Rosetown
Mr. Don Tail	Elrose

Agri-Food Innovation Fund Secretariat

Ms. Elin Viberg,
Co-Secretary to the Board of Directors (Federal)
and Program Leader (Federal)
Prairie Farm Rehabilitation Administration (PFRA), Regina

Mr. John Babcock,
Co-Secretary to the Board of Directors (Provincial)
and Program Leader (Provincial)
Saskatchewan Agriculture and Food, Regina

Changes in Accountability after March 31, 2001:

Janet Ledingham of Weyburn became a member of the
AFIF Board of Directors on April 6, 2001.

Staff management services are provided through the
Agriculture Research Branch of Saskatchewan Agriculture
and Food.



Activities

The 12-month period ending March 31, 2001, was the fifth full year of operation for the Canada-Saskatchewan Agri-Food Innovation Fund (AFIF).

The \$91-million Fund was established to promote and support emerging primary production and value-added processing activities in Saskatchewan.

AFIF is funded two-thirds by the federal government and one-third by the province.

AFIF's strategic plan, developed by industry-dominated working groups, established a framework in 1996 for funding projects in eight key sectors of Saskatchewan's agricultural economy:

- Biotechnology - \$19 million
- Food Processing - \$13 million
- Horticulture - \$3 million
- Information Technology - \$2 million
- Non-Food Processing - \$8 million
- Specialty Crops - \$13 million
- Specialized Livestock - \$5 million
- Sustainable Agriculture - \$8 million

By 1999, AFIF had designed and implemented a strategy to allocate the \$20 million that had been set aside as a reserve to support innovative projects not considered in the original plan.

This included money for creation of the Saskatchewan Nutraceutical Network, construction of the Stockman's Arena to handle specialized livestock at Canadian Western Agribition and establishment of Sask Bounty, a cooperative alliance of beef, canola, flax and turkey associations formed to promote the goodness of Saskatchewan commodities.

AFIF has provided financial support for 282 projects since inception. All funds have been fully committed.

AFIF highlights for the 2000-2001 fiscal year included opening of a pair of facilities in Saskatoon that will help the biotechnology and non-food processing sectors of the economy for years to come as well as a major conference designed to share results in each of the sectors.

In April, the Saskatchewan Research Council's (SRC's) new plant genetics laboratory officially opened at Innovation Place in Saskatoon, thanks in part to support from AFIF.

GenServe Laboratories provides support services to agricultural and biotech companies involved in plant-related research and development activities. GenServe was established with \$563,000 from AFIF. The AFIF money was used to buy equipment while the SRC will pay GenServe's \$140,000 annual operating costs for the first three years.

GenServe offers rapid DNA testing of genetically modified plants using PCR (polymerase chain reaction) techniques and DNA fingerprinting of crops and microorganisms using DNA markers.

Clients of the lab will include crop insurance companies and nurseries needing to confirm the identity of specific plant varieties through DNA testing. The lab will also be able to identify plant diseases and develop new molecular testing techniques on a contract basis.

The GenServe Laboratories is another AFIF example of the commitment that both the provincial and federal governments have to build infrastructure that builds business in Saskatchewan.

In November, more than 300 academics, agrologists, federal and provincial government officials as well as research scientists gathered in Regina to share some of their AFIF-supported project results.

In January, POS Pilot Plant Corp. celebrated a \$1.8-million upgrade its facilities that will allow Saskatchewan food and pharmaceutical companies to access leading edge processing equipment and research facilities at a reasonable cost.

POS purchased three unique processing systems and equipment with \$1.3 million from AFIF. The new equipment allows POS to provide industry with state-of-the-art technology for product development and processing in the cosmetic, food, nutraceutical and pharmaceutical sectors. This research, in turn, helps clients scale-up to commercial production.

Meanwhile, throughout the year work in all eight AFIF-supported agriculture sectors continues to benefit the economy.

Biotechnology

Among the more than two dozen projects in the biotechnology sector was a \$3.5-million initiative that helped the University of Saskatchewan establish an advanced training centre in biotechnology. The broadly-based programs in microbial, plant and animal technology include graduate student training (M.Sc. and Ph.D levels), professional training and new capacity in molecular agriculture and applied biotech.

Long-term benefits will also accrue from the \$3.27 million AFIF provided the Saskatchewan Research Council to create a contract fee-for-service laboratory in fermentation and cell culture technologies. The plant's facilities and equipment are available to all companies that need to expand their research and development capabilities to speed up the development and commercialization of their products.

Food Processing

Construction of the Saskatchewan Food Industry Development Centre's expanded and state-of-the-art development and testing facilities was well underway during the year. It was on target to open in the fall. Known simply as the Food Centre, the project was the largest single investment by AFIF. The investment recognizes the fact that food processing is the fastest growing sector of Saskatchewan agriculture. More than 7,000 people are employed by Saskatchewan food processors, which have an annual payroll of \$227 million.

Horticulture

A legacy from activities within the horticulture sector of the economy is a potato and vegetable handling, storage and processing facility in Outlook, constructed with the help of \$685,000 from AFIF. Other horticulture projects with residual benefits for Saskatchewan include support for native fruit growers, research into chokecherry and Saskatoon berry production as well as work to export strawberry crowns and garlic to California.

Information Technology

AgriCarta, an agricultural information retrieval system, was established on the Internet with \$745,000 from AFIF. More than 6,000 documents organized into almost 900 subject areas were put online. Content was provided or monitored by officials with the departments of agriculture for the three Prairie provinces.

In another Internet project, almost 2,000 individuals received training, took part in live agricultural webcasts and on-line seminars in an AFIF-supported project called Managing Technology for Agriculture Information (MTAI).

Non-Food Processing

The Prairie Agricultural Machinery Institute (PAMI) in Humboldt utilized \$1.4 million from AFIF to create the Crops Processing Development Centre. This new facility is designed to maximize the utilization of crop materials for feed, fibre and fuel use. PAMI predicts the facility will indirectly create \$84 million sales and 350 jobs for industries over the next seven years.

Specialty Crops

Applied research and demonstration sites for specialty crops were established under the \$4.6 million AFIF-support "Spoke" program at Canora, Indian Head, Melfort, Outlook, Redvers, Scott and Swift Current. The collaborative effort involved organizations representing producers of herb and spice crops, pulse growers and organic producers.

More than two dozen other AFIF-supported projects conducted research into chickpeas, dry beans, flax, spice breeding and making canary seed edible for humans.

Specialized Livestock

A \$2-million endowment from AFIF ensures there is a "chair" for specialized livestock within the Western College of Veterinary Medicine at the University of Saskatchewan.

AFIF has also supported alpacas, bison, elk, goat, llama and reindeer research and marketing projects.

Sustainable Agriculture

The largest number of projects - almost 70 - AFIF supported was in the sustainable agriculture sector.

Those projects ranged from the \$2.3 million for developing ways to improve rural water quality to a \$6,000 initiative that was set up to look at ways of possibly combining municipal effluent with liquid hog manure in an effluent lagoon system.

Agri-Food Innovation Fund

Financial Statements

For the Year Ended March 31, 2001



SASKATCHEWAN

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

Phone: (306) 787-6398
Fax: (306) 787-6383
Internet e-mail: info@auditor.sk.ca

Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Innovation Fund as at March 31, 2001 and the statements of revenue, expenditure and net financial assets and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Fund received transfers from the General Revenue Fund under a shared-cost agreement with the federal government. The Fund recorded these transfers as revenue in the year they were received. However, transfers under shared-cost agreements should be recorded as revenue when the related eligible expenditures are incurred. Any transfers received in advance should be recorded as deferred revenue. Had the Fund properly recorded these transfers, deferred revenue would have increased and net financial assets at the end of the year would have decreased by \$8,380,000 (2000 - \$8,380,000).

In my opinion, except for the effects of the failure to properly record the transfers as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Wendel, CMA, CA
Acting Provincial Auditor

Regina, Saskatchewan
May 1, 2001

Statement 1

Agri-Food Innovation Fund Statement of Financial Position As at March 31

	<u>2001</u>	<u>2000</u>
FINANCIAL ASSETS		
Due from General Revenue Fund (Notes 3 & 4)	\$ 13,980,248	\$ 16,012,341
Interest receivable (Notes 3 & 4)	192,586	212,461
Accounts receivable	212,007	---
Prepaid expenditure	<u>2,624,140</u>	<u>4,550,154</u>
	<u>\$ 17,008,981</u>	<u>\$ 20,774,956</u>
LIABILITIES		
Accounts payable	\$ 2,743,565	\$ 2,584,180
Deferred revenue	<u>581,655</u>	<u>5,388,160</u>
	<u>3,325,220</u>	<u>7,972,340</u>
NET FINANCIAL ASSETS (Statement 2)	<u>\$ 13,683,761</u>	<u>\$ 12,802,616</u>

(See accompanying notes to financial statements)

Statement 2

Agri-Food Innovation Fund Statement of Revenue, Expenditure and Net Financial Assets Year Ended March 31

	<u>2001</u>	<u>2000</u>
Revenue		
Government of Canada (Note 6)	\$ 12,403,794	\$ 17,747,439
Interest revenue (Note 4)	731,146	596,771
Government of Saskatchewan		
- General Revenue Fund (Note 6)	150,000	---
Miscellaneous	<u>18,349</u>	<u>14,611</u>
Total revenue	<u>13,303,289</u>	<u>18,358,821</u>
Expenditure		
Contractual services - Strategic Projects	12,181,244	17,483,940
Board expenditures	40,497	7,644
Office supplies	21,315	25,082
Communication activities	<u>179,088</u>	<u>245,384</u>
Total expenditure (Schedule 1)	<u>12,422,144</u>	<u>17,762,050</u>
Surplus for the year	881,145	596,771
Net financial assets, beginning of year	<u>12,802,616</u>	<u>12,205,845</u>
Net financial assets, end of year - to Statement 1	<u><u>\$ 13,683,761</u></u>	<u><u>\$ 12,802,616</u></u>

(See accompanying notes to financial statements)

Statement 3

Agri-Food Innovation Fund Statement of Cash Flows Year Ended March 31

	<u>2001</u>	<u>2000</u>
Cash Flows from operating activities:		
Cash receipts from the Government of Canada	\$ 4,178,232	\$ 5,657,760
Cash receipts from the General Revenue Fund	---	5,648
Cash refunds from contractors	18,349	14,611
Interest received	836,801	921,385
Cash paid to contractors	<u>(7,065,475)</u>	<u>(12,568,899)</u>
Net increase (decrease) in cash and cash equivalents	(2,032,093)	(5,969,495)
Cash and cash equivalents, at beginning of year (Note 2)	<u>16,012,341</u>	<u>21,981,836</u>
Cash and cash equivalents, at end of year (Note 2)	<u>\$ 13,980,248</u>	<u>\$ 16,012,341</u>

(See accompanying notes to financial statements)

Agri-Food Innovation Fund

Notes to the Financial Statements March 31, 2000

1. Authority and Definition

The Agri-Food Innovation Fund was established effective March 31, 1995 pursuant to Section 3 of The Agri-Food Innovation Act as a corporation. The purpose of the Fund is to enhance the diversification of the Saskatchewan agriculture and food industry, support research and development and encourage farmers and rural residents to create economic opportunities and jobs. On September 25, 1995, the Government of Saskatchewan entered into the Canada-Saskatchewan Agri-Food Innovation Agreement (Agreement) with the Government of Canada to achieve this purpose.

The Fund is administered by the Agri-Food Innovation Fund Board.

The Board has entered into contracts with various contractors to carry out projects for the purpose outlined above.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting principles are considered significant:

a) Basis of Accounting

The Agri-Food Innovation Fund financial statements have been prepared on the accrual basis of accounting.

b) Revenue Recognition

Externally restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Funding received from the Federal Government is considered to be externally restricted and as a result is deferred until the program itself incurs expenditures.

Funding received from the Government of Saskatchewan is not considered to be externally restricted because the Fund is controlled by the Government.

c) Receivables/Payables

These financial instruments are both interest and non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the carrying value of these financial instruments approximates fair value.

d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of amounts due from the General Revenue Fund.

3. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

The Fund earned interest income of \$731,146 (2000 - \$596,771) on monies deposited in the General Revenue Fund. At year end, the Fund had monies deposited in the General Revenue Fund totalling \$13,980,248 (2000 - \$16,012,341).

Included in accounts receivable is \$150,000 from Saskatchewan Agriculture and Food for the Spoke Site Endowment Project.

In accordance with Section 9 of The Agri-Food Innovation Act, the Minister of Agriculture and Food may provide to the Fund any supplies and employee services required to carry out its responsibilities. The Fund received office space and administrative services from Saskatchewan Agriculture and Food without charge.

Included in prepaid expenditures are amounts paid to related parties of \$647,885 (2000 - \$1,412,299) and included in accounts payable are amounts due to related parties of \$155,106 (2000 - \$660,351).

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

4. Due From General Revenue Fund

The monies of the Agri-Food Innovation Fund are deposited in the General Revenue Fund. The Agri-Food Innovation Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Agri-Food Innovation Fund using the Government's thirty-day borrowing rate (2001 average rate – 5.59%; 2000 average rate – 4.79%), and the Agri-Food Innovation Fund's daily balance.

5. Comparison of Planned and Actual Results for the Year Ended March 31, 2001

	2000-2001	
	Budget	Actual
Expenditures:		
Board expenditures	\$ 2,000	\$ 40,497
Office supplies	20,000	21,315
Contractual services		
- Strategic Projects	12,750,000	12,181,244
Communication activities	432,000	179,088
	<u>\$ 13,204,000</u>	<u>\$ 12,422,144</u>

The Board approved the budget for expenditures at its March 2, 2000 meeting.

6. Federal Government Funding

Agriculture and Agri-Food Canada (Canada) is committed to contribute, by March 31, 2002, up to \$64 million to the Fund under the Agreement.

Canada contributed \$7,597,289 (2000 - \$10,496,544) in the year under Section 5.3 of the Agreement. Under the Agreement, interest accrues on Canada's contributions until they are spent. Canada's contributions include interest of \$85,780 (2000 - \$235,670).

When the Agri-Food Innovation Fund Board approves a designated federal agency to carry out a project or program, the funding is provided to the agency by Canada. The project or program revenues and expenditures are recorded in the Fund. Included in revenue and expenditure on Statement 2 is \$3,326,852 (2000 - \$4,603,114) for projects funded directly by Canada.

7. Commitments

At March 31, 2001, the Board had approved Strategic Projects that will be expended in future years.

March 31, 2002	\$ 8,786,851
March 31, 2003	<u>2,257,000</u>
	<u>\$ 11,043,851</u>

Schedule 1

Agri-Food Innovation Fund Details of Expenditures For the Year Ended March 31

	<u>2001</u>
Personal Services:	
Travel	\$ 1,171
Payees under \$2,500	38,409
Net accrual adjustments	<u>917</u>
Total Travel and Personal Services	<u>40,497</u>
Strategic Projects	
Agriculture Institute of Management in Saskatchewan	178,000
East Central Research Foundation	35,000
Garven & Associates	110,000
Gebhardt Consulting	68,120
Indian Head Agriculture Research Foundation	45,500
Maple Ridge Farm Inc.	115,000
Marmax Consultants	63,000
Nixdorf, Raymond	70,857
Nuform Packaging Inc.	27,003
Pathfinders Research & Management Ltd.	25,000
Performance Plants Inc.	45,000
Plant Biotechnology Institute	718,418
POS Pilot Plant Corporation	20,067
Prairie Agricultural Machinery Institute	160,261
Prairie Farm Rehabilitation Administration	3,326,852
Prairie Feed Resource Centre	130,000
Prairie Plant Systems Inc.	76,525
Saskatchewan Aginfont Inc.	119,000
Saskatchewan Alfalfa Seed Producers Development Commission	51,000
Saskatchewan Association of Rural Municipalities	73,000
Saskatchewan Bounty Inc.	50,000
Saskatchewan Elk Breeders Association Inc.	40,000
Saskatchewan Food Processors Association	55,000
Saskatchewan Fruit Growers Association	44,634
Saskatchewan Herb and Spice Association	28,000
Saskatchewan Institute of Applied Science and Technology	20,000
Saskatchewan Nutraceutical Network	195,000
Saskatchewan Property Management Corporation	340,713
Saskatchewan Stock Growers Association	150,000

Schedule 1 Continued

Wheeler Farm Historical Society Inc.	33,600
Southeast Prairie Rural Development Co-operative Ltd.	20,000
Station Events Inc.	25,680
Sullivan, Andrew	33,649
Sweetman, Glen	35,528
University of Manitoba	90,000
University of Saskatchewan	1,918,780
Veterinary Infectious Disease Organization	468,000
Western Beef Development Centre Inc.	117,000
Wheatland Conservation Area Inc.	41,000
Payees under \$20,000	1,132,609
Net accrual adjustments	1,884,448
Total Strategic Projects	<u>12,181,244</u>
Supplier Payments	
Printwest Communications Ltd.	28,885
Trinity Communications Inc.	58,937
Payees under \$20,000	111,208
Net accrual adjustments	<u>1,373</u>
Total Supplier Payments	<u>200,403</u>
Total	<u>\$ 12,422,144</u>